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MARKETS

Raising Money in the Crypto World Has Gotten a Lot Harder

The market for initial coin offerings, which boomed last year, has ground to a halt

Initial coin offerings grew important to cryptocurrencies because the deals allowed companies to bypass traditional funding sources. Here, digital-currency prices displayed in South Korea. PHOTO: JEAN CHUNG/BLOOMBERG NEWS

By Paul Vigna
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The ICO market is dead. Just about, anyway.

Startups raising money via initial coin offerings brought in just $118 million in the first quarter, according to data from research site TokenData. In the same period in 2018, companies raised $6.9 billion.

Investors have been spooked by regulators' clash with ICOs and the overall bear market in cryptocurrencies, where prices are plunging and trading volume is shrinking. It has gotten so bad that the creator of one project, called Sponsy, canceled its ICO and put it up for sale on eBay Inc. EBAY **0.98%** ▲

The drop in ICOs is the latest sign that the crypto boom of years past got ahead of itself, and that potential investors are changing from enthusiastic to skeptical.

ICOs became important to the crypto market because they allowed companies to bypass traditional funding sources to raise money. In an ICO, investors buy a bitcoin-like digital token related to a product or service a crypto company plans to offer. But the unruly, unregulated mania that followed created its own problems.

Of the 2,500 projects TokenData tracked since 2017, 55% of them failed to even raise money. Of the ones that did, only 15% are trading at or above the original issuance price.

“Token sales as they happened in 2017 and 2018 are pretty much dead,” said TokenData founder Ricky Tan.

ICOs began in 2014 but exploded in 2017, when the software to run an ICO was standardized. That made it easy for startups of any size to try to raise money from the public. Cryptocurrency prices were also soaring, which emboldened investors to try their luck.

Just as the market was heating up, the Securities and Exchange Commission began investigating the phenomenon. Since then, the commission has issued a series of enforcement actions against crypto startups showing it regards some ICOs as securities and thus subject to securities laws.

Many companies seeking ICOs were little more than ideas on paper. Others showed hallmarks of fraud.

At their respective trading highs, the hundreds of small startups that created ICO tokens had about $24 billion worth of cryptocurrency and cash in their collective treasuries, according to a report from the derivatives exchange BitMex. That has since fallen to about $5 billion, largely because the tokens have lost value.

As problematic as ICOs have been, the idea of them is still worth developing, said attorney and consultant Joshua Ashley Klayman. She said she expects that will continue as regulators define terms that would help startups raise money in ways that meet regulations.

Two states, Delaware and Wyoming, have approved legislation that would allow companies to incorporate and offer digital securities. Circle Internet Financial Ltd. this year acquired a corporate crowdfunding platform called SeedInvest. Eventually, startups will be able to use SeedInvest to sell digitally created and recorded equity stakes.

The ICO itself may go away, but the market for digital securities won't, Ms. Klayman said. "I'm hoping it's just dormant," she adds.

Ivan Komar, a 21-year old student at Belarusian State University, started building a startup called Sponsy last year when ICOs were still a mania. The idea was for a blockchain-based platform that would connect people who needed to raise money with potential sponsors. By the time Mr. Komar was done building Sponsy, however, so was the boom.

"The ICO has disappeared, vanished," Mr. Komar said.

Mr. Komar listed Sponsy for sale on eBay. He got one bid for his asking price of $60,000. He said Friday he planned to accept it.

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